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SUBJECT: CUSTOMS' EXPORT CONTROL ENFORCEMENT ROLE IN SHANGHAI

Classified By: Political External Unit Chief Edgard D. Kagan. Reasons 1.4 (b/d).

¶1. (C) Summary: The PRC's General Administration of Customs (GAC) utilizes a risk management system to identify "certain countries and regions" and "certain goods" to be subject to physical inspection before export, Customs officials at Shanghai's Waigaoqiao Port told Poloff during a September 7 meeting. The GAC officers said that they receive information on shipments of concern via the U.S. Container Security Initiative and from GAC Headquarters in Beijing, noting that they would not necessarily know that the source of any Beijing-supplied information was the United States. "Recent cases" at the port include discoveries of smuggled aluminum alloy rings, graphite, zirconium powder and hydrogen fluoride potassium, they said. The Customs officials could not describe what percentage of the goods exported from the port are "sensitive goods," saying only that the number is "quite high." The port employs three container scanners. Poloff also attended the opening ceremony of an export control and nonproliferation training program at the Shanghai Customs College, although the MFA and Ministry of Commerce sessions were closed to foreigners. End Summary.

¶2. (SBU) Poloff traveled to Shanghai September 7 to observe an export control and nonproliferation training program for Chinese Customs officers and to gain a better understanding of the role GAC plays in export control enforcement.

Waigaoqiao Port Operations

¶3. (SBU) At Shanghai's Waigaoqiao Port, an all female team of GAC officials, including the port's Deputy Director and inspection, export control and anti-smuggling chiefs, provided Poloff with an overview of the port's operations and its export control responsibilities. The Customs officers said that 224 employees are responsible for inspecting and clearing cargo at the port's 16 berths that handle 70 percent of Shanghai's cargo container traffic, which amounts to 12.7 million TEU's annually. Customs officials at the port receive 2,500 import and export customs declarations per day, of which 1,000 are for shipments transiting Shanghai mostly from one Chinese city to another, the GAC officials claimed.

¶4. (C) According to the Customs officers, the Ministry of Commerce (MOFCOM) does not pre-notify Customs officers at Waigaoqiao Port that an export license has been issued to an exporter planning to ship cargo via the port, although GAC has computerized access to MOFCOM-issued licenses. The officials told us that GAC "sometimes" phones MOFCOM to verify the authenticity of licenses. Exports at the port are cleared electronically. A GAC official told Poloff separately that, aside from China's small, rural Customs stations, such as those along the Laos and Burma borders, all of China's Customs stations are fully automated and linked by computer.

Analyzing Risk

¶5. (C) Customs utilizes a "Risk Management Platform" to

determine what cargo should be subject to physical inspection, the Shanghai Customs officials stated. "Certain countries and regions" and "certain goods" alert officers of the need for inspection. They said GAC officers also compare paper documentation filed by the exporter with documentation submitted electronically and if inconsistencies are detected, the cargo is inspected. The officers stated that they receive information on shipments of concern directly from the United States via the U.S. Container Security Initiative and from GAC Headquarters in Beijing, noting they would not necessarily know that the source of any Beijing-supplied information was the United States. According to the officials, "recent cases" at the port include discoveries of smuggled aluminum alloy rings, graphite, zirconium powder and hydrogen fluoride potassium. When asked several times what percentage of the cargo exported from the port is classified as sensitive goods, the Customs officials responded only by saying that the number is "quite high." (Note: A PRC official attending a training program at the University of Georgia reportedly claimed that GAC maintains records of exports based on the product's 10-digit Harmonized Tariff classification. End Note.) The officers claimed that sensitive goods are exported by both sea and air.

¶6. (C) The GAC officers explained that if smuggling is suspected at the port, the matter is referred to GAC's Anti-Smuggling Unit for further investigation. The port employs three H986 scanners that have been in operation since ¶2000. The officers said that 160 containers are scanned daily. They had no data on the number of violations detected

other than to state that mis-declarations are discovered every day, but most are "not serious."

¶7. (SBU) Waigaoqiao occupies four square kilometers and is separated from the main road by an approximately 100-meter field of green grass. A white fence without barbed wire runs along the road and along the port boundary, making the field a "no-man's land." Poloff did not see any cameras along the fence line, but was only able to observe about a half-mile of the port's perimeter. Access to the port is via several manned toll-like booths.

Training China's Future Customs Officers

¶8. (SBU) At the export control and nonproliferation training program opening ceremony, Customs Commissioner Yu Shen, addressing a packed auditorium of GAC officials, noted the importance of export controls and China's commitment to prevent the proliferation of weapons of mass destruction. MFA Arms Control and Disarmament Missile Division Director Ma Shengkun kicked off the training program's first session with an overview of China's nonproliferation policies. However, Ma's session and MOFCOM's afternoon session on export control licensing procedures were closed to foreign observers. Poloff noticed that approximately 30 uniformed GAC cadets, who sat together in the upper corner of the auditorium and never moved from their seats following the opening ceremony, were joined by 20 to 30 casually dressed officials for Ma's presentation.

¶9. (SBU) While Ma spoke, Poloff and two export control experts from the University of Georgia participating in the second day of the training program toured the Shanghai Customs College, a diploma-issuing institution with 1,500 students. Customs Commissioner Yu, who is also the school's dean, explained that 30 percent of GAC's 50,000 active officers are graduates of the college, which also provides continuing education to GAC officials. The curriculum includes, *inter alia*, Harmonized Tariff classification, customs audits and customs brokerage and logistics. Yu said that he exposes his cadets to China's export control laws and regulations and discussed future cooperative ventures with the University of Georgia experts.

¶10. (U) According to Yu, students are attracted to the

university because they believe that a government job offers long-term economic security. However, before starting a career with GAC, graduates must pass China's civil service exam. If they fail, Yu said, graduates can "always find jobs in business." The college is undergoing expansion and renovation, including construction of new dorms and classrooms, as well as a World Customs Organization training center for the Asia-Pacific region. The campus will include canals and lakes and, Yu hopes, someday a golf course. New administration buildings, a three-story library with a wood-paneled lounge and an athletic center complete with an Olympic-size swimming pool and retractable roof have already been built. When asked how a government agency can afford these amenities, a Chinese nonproliferation expert stated that, because it is a revenue raising agency, the PRC "just throws money at Customs."

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